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EXPORT PROMOTION

Governmentwide Plan
Contributes to Improvements

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**EXPORT PROMOTION:
GOVERNMENTWIDE PLAN CONTRIBUTES
TO IMPROVEMENTS**

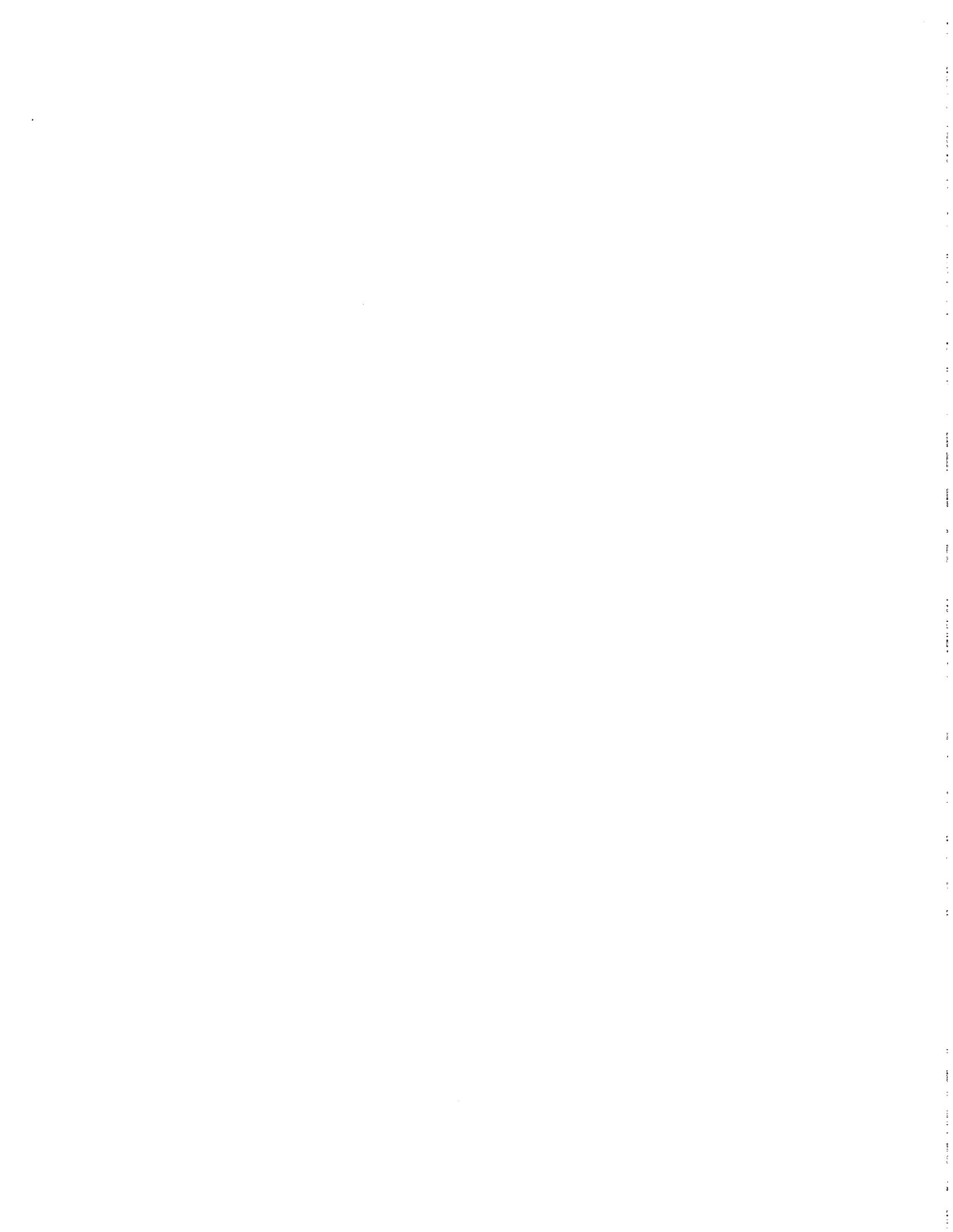
**SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, MANAGING DIRECTOR
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The Trade Promotion Coordinating Committee's (TPCC) September 29, 1993, report on its effort to develop a governmentwide strategic plan for federal export promotion programs was mandated by the Export Enhancement Act of 1992. The act requires the plan, among other things, to establish priorities for federal export promotion, include a strategy for bringing federal export promotion activities into line with the new priorities and for improving their coordination, and propose a unified budget for federal export promotion programs. This was a formidable task.

The TPCC's plan, "Toward a National Export Strategy," is--as its title suggests--a status report on progress to date. The plan includes specific actions to improve the existing export promotion system in areas where TPCC was able to reach consensus. However, TPCC was unable to reach consensus by the September 30, 1993, statutory reporting date on the difficult issues of setting priorities and creating a unified budget for federal export promotion programs. Nevertheless, the plan does make a firm commitment to establish governmentwide priorities and a unified budget within the context of the fiscal year 1995 budget.

The TPCC plan contains numerous proposals for change. Some of these proposals are incremental but, in combination, may significantly contribute to improving the existing export promotion system. Other more far-reaching changes begin the process of integrating federal export promotion programs and functions, and thus may substantially enhance the delivery of export promotion services. Several initiatives are of particular importance to small- and medium-sized businesses, notably a proposal to establish a network of "one-stop shop" field offices for delivering federal export promotion services. The plan also includes proposals to substantially relax controls on exports of computer and telecommunication equipment, and create a fund to help finance major capital projects overseas that is intended to combat other countries' tied aid practices.

To be successful, the TPCC effort, from here on, will require continued, sustained, high-level administration involvement and support. The administration should use a well-reasoned analytical methodology for establishing federal export promotion priorities, and, upon developing them, assess the usefulness of all federal export promotion activities in light of those priorities. The unified budget should reflect the newly established federal export promotion priorities and facilitate the process of reallocating funds within and among agencies.



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify before this Subcommittee on the report on the federal strategic plan to promote exports issued last month by the interagency Trade Promotion Coordinating Committee (TPCC). Today I will present our initial assessment of the TPCC's strategic plan, "Toward a National Export Strategy," which we believe represents a substantial effort to address the requirements of the act. Our assessment is based on criteria we developed using the requirements laid out by the Export Enhancement Act of 1992, which required TPCC to develop the plan. We first stated these criteria in testimony before this Subcommittee on July 26, 1993.¹

THE IMPORTANCE OF EXPORT PROMOTION PROGRAMS

Successful export performance contributes to increasing U.S. living standards. A range of government export promotion programs are designed to help U.S. companies export more. Federal export promotion programs involve offering business counseling, training, and help with finding overseas representation, as well as providing market research information, trade fair opportunities, and export financing assistance. Alone, these programs cannot produce a substantial change in the U.S. trade balance, which is largely determined by the underlying competitiveness of U.S. industry and by the macroeconomic policies of the United States and its trading partners. However, export promotion programs can help U.S. firms increase exports of competitive U.S. products.

THE FEDERAL EXPORT PROMOTION SYSTEM IS FRAGMENTED AND INEFFICIENT

During 1991-92, our reviews of federal export promotion programs reported on an effort that is fragmented among 10 agencies; lacks any governmentwide strategy or priorities; and suffers from inefficiency, overlap, and duplication.² The lack of a governmentwide strategy for promoting exports resulted in what appeared to be funding anomalies for different agencies' programs. For example, in fiscal year 1991, although agricultural products accounted for only about 10 percent of U.S. exports, the U.S. Department of Agriculture received about 75 percent of the federal export promotion budget. Moreover, of the 10 federal agencies that

¹See Export Promotion Strategic Plan: Will It Be A Vehicle for Change? (GAO/T-GGD-93-43, July 26, 1993).

²See Export Promotion: Governmentwide Strategy Needed for Federal Programs (GAO/T-GGD-93-7, Mar. 15, 1993); Export Promotion: Problems in the Small Business Administration's Programs (GAO/GGD-92-77, Sept. 2, 1992); Export Promotion: Federal Approach Is Fragmented (GAO/GGD-T-93-68, Aug. 10, 1992); and Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992).

have export promotion programs, 3 maintain separate networks of field offices to deliver their export promotion assistance. This fragmentation makes it difficult for the government to provide export promotion services that many businesses--especially small- and medium-sized businesses--say they need.

THE EXPORT ENHANCEMENT ACT OF 1992

The Export Enhancement Act of 1992 required TPCC to issue by September 30, 1993, and annually thereafter, a report containing "a governmentwide strategic plan for Federal trade promotion efforts" and describing its implementation. The act aimed to establish a process, including an annual reporting requirement, through which the administration, working with Congress, could establish priorities for export promotion activities, reshape their programs to reflect those priorities, and marshal federal resources to fund programs that yield the greatest return to the taxpayer.

The legislation was specific as to the content of the strategic plan. It required the plan to establish priorities for federal export promotion and explain the rationale for these priorities. The act also required the plan to include a strategy for bringing federal export promotion activities into line with the new priorities and for improving their coordination. In addition, the plan was to propose a means for eliminating overlap among federal export promotion activities and increasing cooperation between state and federal export promotion efforts. Lastly, the act required TPCC to include in the strategic plan a proposal to the President for an annual unified budget for federal export promotion activities. This budget was to (1) reflect the new priorities and improved interagency coordination and (2) eliminate funding for areas of overlap and duplication among federal agencies.

OBSTACLES TO DEVELOPING A STRATEGIC PLAN

Any assessment of progress made thus far in creating a governmentwide plan for export promotion must be considered against the formidable nature of the task. Developing a successful governmentwide plan required that a committee comprised of officials from different federal agencies, each with different missions and constituencies, work together to determine a common set of priorities for export promotion. Essentially, TPCC was asked to address the most contentious and difficult of interagency issues: the possible reallocation of agency staff and funding resources, the shifting of programmatic responsibilities among different agencies, and the potential redistribution of the benefits of the federal export promotion efforts among different constituencies.

Moreover, TPCC faced a further complicating factor. Genuine progress in restructuring the federal export promotion apparatus required the participation and concurrence of agency officials at

the highest levels. While the Secretary of Commerce and the Chairman of the U.S. Export-Import Bank (Eximbank) were actively involved, TPCC developed its report during a presidential transition, and many other officials whose input was required were not appointed until late in the process. The absence of presidential appointees in these key positions made the task much more difficult.

ASSESSMENT OF THE STRATEGIC PLAN

In our July 26, 1993, testimony before this subcommittee, we listed criteria that Congress could use to evaluate the TPCC's strategic plan and actions taken to fulfill the requirements of the Export Enhancement Act of 1992. These criteria included whether the plan (1) was developed with high-level involvement, (2) proposes priorities that have a well-reasoned and strong analytical grounding, (3) was developed in a collaborative and cooperative way by all the federal agencies that are involved in assisting exporters, (4) thoroughly covers federal export promotion efforts and issues, and (5) serves as a change agent.

In our view, the TPCC plan--as its title suggests--is a status report on progress to date. The plan was developed with high-level involvement and in a collaborative and cooperative way among federal export promotion agencies. The plan also broadly covers the federal government's export promotion programs and issues, and sets into motion a number of important changes. We note, however, that the plan does not establish governmentwide export promotion priorities or propose a unified export promotion budget, although the administration commits in the plan to address both these requirements in the context of the fiscal year 1995 budget. It is clear from the plan that TPCC leadership, in an effort to assure that some substantive progress was made, addressed matters on which interagency consensus could be reached by September 29, 1993. On the other hand, it deferred action on more contentious issues.

Basically, the strategic plan undertakes or commits to undertake four types of initiatives. First, the plan commits the administration to making numerous incremental improvements. In combination, these changes may significantly contribute to improving federal export promotion efforts. Among these improvements are centralizing management of federally sponsored trade events; enhancing cooperation with state government export promotion efforts; and, overseas, adopting a single, comprehensive commercial strategic plan for each country in which multiple federal agencies promote U.S. exports.

Second, the administration pledges to make several more far-reaching changes that will, most likely, take some months to implement. In our view, these changes may substantially improve the delivery of export promotion services because they begin the process of integrating federal export promotion programs and

functions. For example, as we proposed in October 1992,³ the strategic plan commits federal export promotion agencies to establish "one-stop shop" export promotion centers for providing services to U.S. businesses. In an effort to determine the best ways to create these centers, the plan provides for the establishment and subsequent evaluation of different types of one-stop shops. Also, responsibility for most federal feasibility study grants for major capital projects will be consolidated in the Trade and Development Agency.

Third, the strategic plan announced several major export control actions, to be taken without delay, to help U.S. exporters. The most striking of these changes, made "with the stroke of a pen," is a dramatic relaxing of controls on computer exports. The TPCC report announced an immediate increase in the control threshold for computer exports to most destinations from 12.5 MTOPs (millions of theoretical operations per second, a measure of processing speed) to 194 MTOPs--a sixteenfold increase. The report also states that the administration will propose to our allies (1) raising this threshold to 500 MTOPs and (2) increasing the definition of a "supercomputer" from 195 MTOPs to 2,000 MTOPs--a tenfold rise. The strategic plan also announced the administration's intention to remove controls on most exports of telecommunications equipment.

Many believe these changes were long overdue because advances in computer technology had rendered existing controls on computer exports obsolete. For example, written government permission in advance was required to export to most countries computer workstations that are commonly available in retail stores. Raising control thresholds to 194 MTOPs and then to 500 MTOPs in effect decontrols the export of workstations to most destinations. The TPCC report estimates that the administration's changes to export controls for computers and telecommunications equipment will eliminate or significantly reduce regulations on an estimated \$35-billion worth of high-technology U.S. exports.

Finally, the plan commits the administration to completing the more difficult requirements of establishing priorities for federal export promotion activities and developing a unified budget that, in the plan's words, will "allocate resources by agency, activity, and geographic focus." The plan makes a firm commitment to complete these tasks within the context of the fiscal year 1995 budget--only about 4 months from now. The plan states that a National Economic Council (NEC) interagency group, chaired by the Commerce Department, will establish the export promotion priorities. And a TPCC working group will help the Office of Management and Budget to translate these priorities into a unified budget.

³ See One-Stop Shops (GAO/GGD-93-1R, Oct. 5, 1992).

As part of the priority- and budget-setting process, the administration proposes to fund a \$150-million Capital Projects Aid Fund to finance major capital projects overseas. The stated objective of this fund is to combat other countries' use of tied aid (foreign assistance that is linked to the purchase of exports from the country extending the assistance). This funding appears to be a major policy decision on the part of the administration to devote significant export promotion resources to the goal of eliminating tied aid by our competitors. However, it is unclear precisely where most of the money will come from. According to the Commerce Department, \$50 million will come from Eximbank's "war chest," a fund already devoted to combatting tied aid, and the remaining \$100 million will come from "proportional contributions" from the export promotion budgets of other TPCC agencies.

STRATEGIC PLAN'S IMPACT ON SMALL BUSINESSES

While various actions proposed in the strategic plan are important for firms of different sizes, several of the plan's initiatives are of particular importance to small- and medium-sized companies. For example, in our October 1992 report to this Subcommittee, we discussed the fragmentation of the delivery network for federal export promotion services. The plan's proposed "one-stop shops" are expected to integrate and make more accessible a range of export services aimed at small- to medium-sized export-ready firms. And a pilot program to establish a network of Trade Assistance Centers will be geared more to helping smaller firms with little or no export experience. Under this program, federal matching grants will be given to private sector organizations to provide technical export services to small companies, focusing on "how to" export counseling and training.

In a September 1992 report,⁴ we said that the Small Business Administration (SBA) had made little use of its Export Revolving Line of Credit (ERLC) export financing program.⁵ The strategic plan establishes a 1-year period to resolve problems with the ERLC program, during which the plan pledges that this program will be harmonized with a similar program managed by the Eximbank. If SBA cannot fix the ERLC program within the 1-year period, the plan further proposes to consolidate in the Eximbank all export finance assistance for working capital purposes. We believe that

⁴See Export Promotion: Problems in the Small Business Administration's Programs (GAO/GGD-92-77, Sept. 2, 1992).

⁵Through this program, SBA guarantees repayment of loans made by financial institutions to small businesses for export-related purposes. These purposes include financing working capital needed to manufacture products for export, to purchase goods or services for export, to develop foreign markets, or to finance foreign accounts receivables.

consolidating the two programs (should an evaluation show SBA unable to effectively manage its program) could not only improve small businesses' access to export financing but also establish a precedent for reallocating resources across agencies based on agencies' comparative advantages.

TPCC'S REMAINING RESPONSIBILITIES

We believe that the acid test of the value of the TPCC process will be the results of the administration's efforts to set federal export promotion priorities and create a unified budget. As we stated at your July 26, 1993, hearing, the true value of the TPCC's strategic plan lies not in its content but in the plan's tangible results; that is, whether this plan, as it evolves, leads to the transformation of the haphazardly organized and fragmented federal export promotion effort. As the administration continues to develop its export promotion strategy to meet the requirements of the 1992 Export Enhancement Act, we believe that the criteria we proposed in your July 26, 1993, hearing should be useful in the oversight process.

High-Level Leadership

To be successful, the TPCC effort, from here on, will require continued, sustained, high-level administration involvement and support. In particular, it is essential that the leadership of the five core agencies involved in export promotion--the Departments of Agriculture and Commerce, Eximbank, the Agency for International Development, and SBA--actively support the development of the new priorities and budget. Together, these agencies represent well over 90 percent of federal outlays on export promotion and fund virtually all federal field operations performing export promotion activities. High-level involvement will be especially important in the coming months as the administration faces the highly charged issues surrounding establishing governmentwide export promotion priorities and reallocating budget resources. The TPCC's plan to have NEC lead the effort to develop priorities should ensure that high-level involvement--including the White House--continues.

Well-Reasoned Priorities

The NEC interagency group should use a well-reasoned analytical methodology for establishing federal export promotion priorities. These priorities should form the foundation for the strategic plan and, accordingly, for the entire effort to reshape federal export promotion activities. As we testified before this Subcommittee on July 26, 1993, only sound priorities can form a firm basis for establishing a new budget and ensuring the highest return on the export promotion dollar for the U.S. taxpayer. The bases for change that the plan proposes must be sufficiently convincing to elicit support from all the agencies involved and the congressional

committees that may be asked to change enabling legislation and alter appropriations.

A rigorous methodology should carefully define federal "export promotion" activities. It should identify the best industries and market candidates for export promotion assistance. In so doing, the federal government would not be "picking winners and losers," but prudently setting priorities in order to ensure the best use of export promotion funds. A rigorous methodology should then (1) use customer views of their requirements to identify the types of assistance that firms in these industries need, but cannot obtain from nonfederal sources; and (2) ascertain which of these unmet needs are appropriate for federal agencies to provide and would yield the greatest return to taxpayers.

Finally, upon developing these priorities, TPCC should assess the usefulness of all federal export promotion activities in light of those priorities. This assessment should (1) clarify the roles and responsibilities of the various agencies that promote U.S. exports and (2) carefully inventory and assess each federal export promotion activity to determine its comparative advantage in delivering needed export services to U.S. businesses identified as the best candidates for export promotion assistance. This assessment should be exhaustive and, where appropriate, result in the integration or elimination of federal programs.

A Comprehensive Unified Budget

A unified export promotion budget is central to translating the strategic plan's priorities into concrete government actions. The unified budget should include all federal export promotion programs, reflect the newly established federal export promotion priorities, and facilitate the process of reallocating funds within and among agencies. The current range of programs and allocation of government resources grew without any overarching strategy or set of objectives. Therefore, a new resource allocation that reflects a deliberate, analytically-based effort to make the most effective use of available public resources should reallocate resources among the various federal export promotion priorities, programs, and agencies.

The new resource allocation process should ensure that (1) federal export promotion activities of great value to the business community receive continued or, if appropriate, expanded funding; (2) activities that no longer serve a purpose or duplicate other more effective activities are pared back or eliminated; and (3) activities that complement each other are better coordinated. The budget proposals should also reflect each agency's comparative advantage in delivering priority export services to the business community, and the more streamlined and better-coordinated program offerings that result from the process of reshaping federal export promotion activities.

PROGRAM EVALUATION

Because the plan deals with change, even with the best of intentions administration officials cannot be sure that they will get what they want. Consequently, we are encouraged by the strategic plan's commitment to adhering to a more systematic use of performance measures to evaluate the utility of export promotion programs. We caution, however, that great care should be taken in establishing what methods are to be used to assess performance. If the wrong measures of success are used, TPCC cannot make good decisions about what to change. This is a problem that I have referred to in the past as "managing to the imperfect indicator."

Evaluation of export promotion programs is very difficult. There is always the temptation to focus on what can be easily measured, or to justify programs in terms of alleged exports generated and jobs created. It is very difficult methodologically to establish a one-to-one relationship between export promotion programs and specific exports. In this regard, one measure that should be used to assess the success of each program is scientifically valid surveys that accurately reflect client or customer satisfaction with the usefulness of the services provided.

CONCLUSION

The Export Enhancement Act of 1992 established a process intended to improve the effectiveness and efficiency of federal efforts to promote trade. The first report on this effort identifies some potentially significant changes that have resulted from TPCC deliberations to date. In addition, the report clearly commits the administration to completing the difficult tasks of setting governmentwide priorities and creating a unified budget for federal export promotion activities within the context of the fiscal year 1995 budget. If this continuing effort is successful, and TPCC can fulfill all the commitments it makes in the September 29, 1993, report, TPCC will make a significant contribution to improving the federal government's efforts to promote exports.

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Mr. Chairman, this concludes my prepared statement. I will be happy to try to answer any questions you or other Members of the Subcommittee may have.

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